

Sandra L. Wagner  
Director -  
Federal Regulatory

SBC Communications Inc.  
1401 I Street, N.W.  
Suite 1100  
Washington, D.C. 20005  
Phone 202 326-8860



May 29, 1996

EX PARTE OR LATE FILED

DOCKET FILE COPY ORIGINAL

Ex Parte

RECEIVED

MAY 29 1996

Mr. William F. Caton  
Acting Secretary  
Federal Communications Commission  
1919 M Street, N.W., Room 222  
Washington, D.C. 20554

FEDERAL COMMUNICATIONS COMMISSION  
OFFICE OF SECRETARY

Re: CC Docket No. 96-45. Universal Service

Dear Mr. Caton:

*In accordance with the Commission's rules governing ex parte presentations, please be advised that today, Jeff Olson, Teri Rohr, John Schrottenboer and the undersigned representing Southwestern Bell Telephone Company met with Brian Roberts and Lee Palagyi of the Joint Board staff, David Krech, Jonathan Reel, Fatina Franklin, Pam Szymczak and Mark Nadel of the Common Carrier Bureau to discuss SWBT's position in connection with Universal Service. Please include the attachment, which was used as the basis of the discussion, in the public record.*

*If you have any questions, please do not hesitate to contact me.*

Sincerely,

A handwritten signature in cursive script, appearing to read "Sandra L. Wagner".

Attachment

cc: David Krech  
Jonathan Reel  
Fatina Franklin  
Pam Szymczak  
Mark Nadel

No. of Copies rec'd  
LIST ABCDE

043

**Southwestern Bell Telephone Company**

**Universal Service**

**CC Docket No. 96-45**

# **Southwestern Bell Supports USTA's Universal Service Plan**

## **USTA's Universal Service Plan:**

- **Is conceptually sound**
- **Meets the requirements outlined in The Telecommunications Act of 1996**
- **Relies on consumer-focussed affordability and replicates market-based prices.**
- **Creates competitively neutral explicit support mechanisms**

# **Separate Funding Mechanisms Should Be Established to Provide Support For:**

**Core set of universal services in rural, insular high cost and unserved areas**

**Special services for schools and libraries**

**Special services for rural health care providers**

**Core services to low income customers**

**The establishment of separate funding mechanisms will help to ensure universal service funding is both predictable and sufficient.**

# **Support for Core Set of Universal Services in Rural, High-Cost and Unserved Areas**

- **FCC should focus on interstate funding**

**States will continue to manage intrastate needs**

**Conditions vary by state.**

**States already addressing intrastate needs.**

- **Remove implicit support flows**

**Inter-service support - replace CCL through rate rebalancing and explicit support**

**Intra-service support - deaverage SLC to smaller geographic market areas**

- **Explicit funding required where market price for universal service would be considered unaffordable.**

# **Steps for Addressing High-Cost Support**

- **Define core universal services**
- **Identify universal service area**
- **Identify universal service costs**
- **Affordability**
- **Rebalance Prices**
- **Calculate of high-cost support**
- **Fund high-cost support**

# **Core Universal Services**

- **Voice grade access to public switched network**
- **Touch-tone**
- **Single party residence and business service**
- **Access to emergency services**
- **Access to basic operator services**
- **Standard white page directory listing**
- **Access to basic local directory assistance**

# Universal Service Area

- Area over which high costs are determined

May be different than area for which eligible carrier designation is provided.

- SWBT supports universal service area for non-rural telephone companies to be no smaller than the incumbent LEC's wire center and no larger than the incumbent LEC's geographic territory included in a basic local calling plan.

More closely aligns universal service area with universal service market area.

- Rural telephone companies may retain existing study area.



# Universal Service Costs

- Cost should be based upon embedded costs.

Reflects the actual costs incurred to provide universal service.

- FSLRIC is inappropriate.

Ignores real costs

Fails to provide sufficient support

Reduces incentives for future capital deployment

# **Universal Service Costs (cont'd)**

- **SWBT supports each eligible carrier identifying their actual costs utilizing Parts 36 and 69 of the Commissions rules.**

**Carriers not subject to Parts 36 and 69 would be allowed to use simplified form of cost allocation rule.**

**Helps guard against inefficient market entry.**

**Eliminates delay. New proxy methods and/or alternatives to cost allocation would take significant time to be developed, evaluated and debated.**

- **Disaggregate to universal service area**

# **Affordability**

- **Legislation adds "affordable" to universal service goal.**
- **Affordability refers to customer's ability to bear cost.**
- **Customer's view of universal service expenditures include both interstate and intrastate charges.**
- **Affordability can be determined by treating the total charge for universal service as a household expenditure.**

**Household expenditures can be expressed as a percentage of median household income.**

**Treating total universal service expenditures as a household expenditure will permit comparison with other types of household expenditures.**

- **The Joint Board should identify the level of household expenditure for universal service that is considered affordable.**

# **Affordability** (cont'd)

- **SWBT supports 1% of state household median income as a reasonable and affordable total expenditure level for universal service.**

**Current household expenditures for basic local exchange service is approximately 0.7% of national median income.**

**Current household expenditures for other types of expenditures:**

- **Residential energy consumption: 4%**
- **Gasoline and motor oil: 3%**
- **Housekeeping supplies: 1.5%**
- **Alcoholic beverages: 1%**
- **Total telecommunications: 2-2.5%**

**State household median income will result in comparable expenditure levels across the nation while appropriately reflecting the economic differences between states and the corresponding ability of customers to bear the cost of universal service.**

# **Affordability** (cont'd)

- **The FCC should establish an interstate affordability benchmark and states should establish intrastate affordability benchmarks, which together will result in the affordable level of household expenditures for universal service.**
- **The interstate affordability benchmark should be equal to the nationwide average interstate loop cost and should replace the existing SLC caps.**

**Nationwide average loop cost is approximately \$5.98 per line; interstate affordability benchmark should be \$6.00.**

**Interstate affordability benchmark provides reasonable comparability between rural and urban areas.**

- **An interstate affordability benchmark will be the difference between the state's affordable household expenditure level for universal service and the interstate affordability benchmark.**
- **Universal service costs which exceed the affordability benchmark are considered unaffordable and, therefore, require explicit support.**

# Price Rebalancing

- **Price rebalancing required to remove existing implicit support:**
  - Inter-service support – replace CCL through rate rebalancing and explicit support**
  - Intra-service support – deaverage SLC to smaller geographic market areas**
- **LECs should be permitted to rebalance SLC prices to cover its universal service areas.**
  - SLC prices should be set at a level equal to interstate universal service area loop costs or the new interstate affordability benchmark, whichever is lower.**
- **Interstate loop costs exceeding the interstate affordability benchmark recovered through an explicit support mechanism.**
- **Price rebalancing should be revenue neutral.**

# **Support for Low Income**

**SWBT supports expanding Lifeline program by:**

- **Waiving the entire SLC for qualified Lifeline participants.**
- **Establishing a uniform national standard for SLC waiver eligibility so that participants whose annual incomes fall below the Federal poverty level would qualify.**

# **Explicit Interstate High-Cost Support Fund**

- **Interstate loop costs above interstate affordability benchmark (\$6.00)**
- **Existing USF and Weighted DEM for rural LECs**
- **Existing USF and Weighted DEM for non-rural LECs frozen and eliminated at end of four-year transition period**
- **Support for unserved areas**
- **Four-year transition period to phase down and eliminate CCL and LTS**



# **Universal Service Funding**

- **Competitively neutral funding.**
- **Explicit surcharge based upon interstate retail telecommunications revenues.**
- **All carriers providing interstate telecommunication services responsible for collecting surcharge on retail revenues from their end users.**
- **Explicit recovery from end users required to prevent implicit funding**

# Customer Benefits

- Expanded Lifeline program for low income customers
- Reduced SLC charges for customers in low cost wire centers
- Reduced interstate toll prices resulting from:

Pass through of CCL and LTS elimination

Pass through of USF & weighted DEM for non-rural carriers at the end of 4-year transition period

# **SWBT Customer Benefits**

- **31% of households in SWBT's territory would see a SLC decrease or no change in their SLC.**
- **37% of households in SWBT's territory would see a SLC increase of less than the maximum increase of \$2.50 per month.**
- **32% of households in SWBT's territory would see the maximum SLC increase of \$2.50 per month.**

**Interstate toll reductions will increase customer benefits, as well as the number of customers benefiting.**

- **Interstate toll reductions will be more than offset the SLC increase for approximately 40% of those households seeing a SLC increase.**
- **Only 4% of households will experience the maximum bill increase of \$2.50 per month.**

# **Additional Benefits**

- **Eliminates implicit support**
- **Provides more targeted support**
- **Competitively neutral**
- **Promotes efficient competition**
- **Ensures consumers receive benefits of increased competition**
- **Guarantees continuance of universal service at affordable prices**

# Conclusions

- Our plan is reasonable and can be implemented.
- Plan is based on right criteria: Affordability.
- Plan is broad conceptually and has reasonably targeted outcomes.
- ISLRIC is not correct method for sizing a support fund.